GREAT LAKES PILOTAGE AUTHORITY

SUMMARY OF CORPORATE PLAN 2002-2006
SUMMARY OF OPERATING BUDGET 2002
SUMMARY OF CAPITAL BUDGET 2002

March 1, 2002

Great Lakes Pilotage Authority

SUMMARY OF 2002-2006 CORPORATE PLAN
2002 OPERATING BUDGET AND CAPITAL BUDGET FOR 2002
AS APPROVED BY THE MINISTER OF TRANSPORT AND TREASURY BOARD
THE 31ST DAY OF JANUARY, 2002 T.B. REC. 829504

CORPORATE PLAN SUMMARY

MANDATE

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. Pursuant to the *Marine Act*, which received Royal Assent on June 11 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority is deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*. On October 1st, 1998, the Authority ceased to be a subsidiary of the St. Lawrence Seaway Authority and has surrendered its charter under the *Canada Business Corporations Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

The Authority is not an agent of Her Majesty.

The Chair of the Authority is appointed by order of the Governor in Council on the recommendation of the Minister of Transport. The Chief Executive Officer is selected by the Board of Directors and appointed by order of the Governor in Council on the recommendation of the Minister of Transport. The Chief Executive Officer has the direction and control of the business of the Authority.

POWERS

To carry out its responsibilities the Authority has made regulations, approved by Order-in-Council, pursuant to the Pilotage Act for:

1. The establishment of compulsory pilotage areas.
2. The prescription of the ships or classes of ships subject to compulsory pilotage.
3. The prescription of the classes of pilot licenses and classes of pilotage certificates that may be issued.
4. The prescription of the tariffs of pilotage charges to be paid to the Authority for pilotage services.

OBJECTIVES

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.

- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.
- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.
- To be responsive to the Government's environmental, social and economic policies.

DESCRIPTION OF THE OPERATIONS

The Authority operates in the interest of safety, a marine pilotage service in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock.

Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through Pilotage Headquarters at Cornwall and/or the district office at Port Weller, Ontario.

The Authority must co-ordinate its efforts and operations with a number of other organizations such as The St. Lawrence Seaway Management Corporation and the United States Seaway Development Corporation, who operate the lock facilities, and maintain traffic control systems within the Region; the Canadian Coast Guard, who provide aids to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

The Great Lakes Pilotage region is divided as follows:

- Cornwall District
- International District No. 1
- Lake Ontario
- International District No. 2 (including the Welland Canal)
- International District No. 3 (including Lakes Huron, Michigan and Superior)
- The Port of Churchill, Manitoba

UPDATE OF AUTHORITY'S ACTIONS UNDERTAKEN TO SATISFY 1999'S CTA RECOMMENDATION

The following recommendations were made in the Minister of Transport's letter to the Chair of the Authority on November 15, 1999 and make specific reference to the CTA's recommendation found in the report to parliament "Ministerial Review of Outstanding Pilotage Issues."

Recommendation	Status
The Authority is to develop and adopt a risk based methodology to be used for the designation or re-assessment of compulsory pilotage area. The Authority will be required to publish a Regulation stipulating that reviews of the factors and circumstances related to compulsory designation will take place every five years.	Transport Canada has designed a risk based methodology for the four Canadian Pilotage Authorities to follow in the review of compulsory pilotage areas. GLPA is now undertaking its first review which should be completed by the Summer of 2002.
The Authority is to develop and implement a fair and reasonable system for assessing pilots' competence and and quality of service. This assessment	The process to design a system for assessing pilots' competence and quality of service has been finalized and will be implemented in the Winter of 2002. This process was undertaken

process will have to take place regularly and not less than every five years.	with the full cooperation of the pilots.
The Great Lakes Pilotage Regulations must be amended to enhance requirements for exempting vessels from compulsory pilotage in the Great Lakes Pilotage region.	The Authority is following the risk based methodology to address the request and should complete the study by Summer 2002.
The Minister recommends that the Authority, in partnership with pilots and all legitimate interested parties, regularly examine all aspects of its operations on a continuing basis and report to the Minister the specific steps that have been taken to achieve the goal of improved efficiencies and further cost reductions. Although most of the work has been done in this regard, it would be a constant objective.	This exercise has been done in 2001and will be repeated in year 2002
The Minister requests that a formal system of consultation with interested parties on financial, operational and planning issues be initiated and that the Authority report on its plan for consultation and the implementation of the plan in the Annual Report to Parliament.	The Authority has initiated in 2000 a yearly meeting with all interested parties and was repeated in 2001.
The Minister asks that the Great Lakes Pilotage Authority establish a structural methodology for handling complaints and report on its implementation in the 2000 Annual Report.	A structural methodology for handling complaints has been established in 2000 and was continued in 2001. The Authority received a few inquiries from users but all complaints were properly addressed.
The Minister request that GLPA and industry establish a system for the early release of practical information with respect to safety incident.	The Authority and industry have discussed this recommendation and have yet to finalized a formal system. The Authority will report the progress on this initiative in the 2002 Annual Report.
The Authority should provide reasons when a request for a waiver is denied as to add greater transparency to the waiver process.	This recommendation has been so acted upon by the Authority.
The Authority must begin to report in the Annual Report on the pool of qualified pilot candidates.	The Authority has reported on the pool of qualified pilot candidates in the 1999 and 2000 Annual Report. The Authority will examine this

issue further in 2002 and report it in the 2002 Annual Report.

ASSUMPTIONS USED FOR DEVELOPMENT OF THE CORPORATE PLAN

TRAFFIC VOLUME

Pilotage service is now provided almost entirely to ocean vessels although in the last five years it has been noticed that Canadian tankers are using the services of pilots on a more consistent basis. Since the early 1980's there was a steady and continuous decline in pilotage assignments. This trend was reversed in 1993 when total assignments were 8% higher than those in 1992 and traffic in 1994 was 42% higher than that experienced in 1993. The traffic for 1995 decreased 21% from the level of 1994 and traffic for 1996 increased 13% from the 1995 levels with 1997 traffic being 4% higher than 1996. Traffic in 1998 increased 26% over 1997 due to unusual and unexpected reasons. Steel imports were being threatened with legislation on quotas and import tariff penalties, therefore, a large amount of steel entered the Great Lakes before these proposed measures were to take place. History will show that these proposed measures designed to limit the import of steel never came to be and actually caused more steel to enter the system. Canadian assignments were also abnormally higher in 1998 because two of the International Districts could not supply sufficient U.S. pilots to handle their respective assignments therefore allowing the Canadian pilots to perform this overflow. The Americans have in 1999 increased pilot numbers allowing them to perform their required assignments.

Steel imports and grain exports are expected to remain at 1997 levels for the balance of 2001 as well as for the year 2002 and beyond.

Traffic projections received by the Authority from the Marine and Surface Statistics and Forecasts Branch of Transport Canada forecast traffic levels for 2002 to 2006 to be similar to that of 1997.

Marine traffic during the planning period will be heavily dependant on grain exports and steel movements into and out of the Great Lakes ports. Traffic through the Welland Canal to ports in the upper lakes is important for revenue generation.

Assignments for 2002, which is only one of the Authority's revenue indicators as the size and destination of the vessels also have an impact on revenues, have been established at 7,300. While total 2001 assignments are unknown at the time of preparation of this plan, it is estimated based on the first six months of the season that a level of approximately 7,300 is likely.

	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Forecasted	2002-2006 Planned
Assignments	6,091	6,903	7,192	9,085	8,108	8,605	7,300	7,300
Percentage change	-21%	+13%	+ 4%	+26%	-10%	+6%	-15%	-%

TARIFF LEVELS

Summary of Tariff Changes

Actual								Planned	
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002-2006
-2%	(1) 4.0%	0%	0%	0%	0%	(2) -5%	(1) -5%	0%	+3% per year

(1) 1.5% tariff increase published in 1992 and implemented March 1994 with 2.5% tariff increase effective July 1994.

(2) 5% reduction on the Canadian Sectors.

- 5% reduction to be repeated for second year.

Summary of Inflation Increases - Consumer price Index

1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimated 2002-2006
1.8%	0.2%	2.2%	1.6%	1.7%	.9%	1.7%	3.0%	3.3%	3.0%

Note: Sources for actual from Statistics Canada and forecast from CIBC observer.

WAGE INCREASES

All four (4) collective agreements with the Pilot Corporations were negotiated for a three (3) year term expiring March 31, 2002 with increase in wages averaging 3% increase per year. The Corporate Plan is prepared based on 0% wage increase to management and pilot age expenses for the years 2002 and 2003. Bargaining has not started and is expected to commence in early 2002. This salary freeze will be accomplished by reducing pilot numbers and or wage freezes.

The Collective Agreement with the Public Service Alliance of Canada, which covers clerical staff and dispatchers was renegotiated for a three (3) year term expiring June 30, 2003 with salary increases of 3.3%, 3% and 2.5%.

PILOT NUMBERS

Between 1981 and the end of the 1993 season, the Authority reduced its pilot numbers by 73 full-time positions (from 127 to 54). This reduction in numbers was due to the significant decline in traffic volume over the period. The Authority attempted to reduce the delays caused by the unexpected and unpredicted 42% increase in 1994 traffic by:

(i) recalling retired pilots,
(ii) extending contract periods of work for existing contract pilots,
(iii) adjusting working rules to facilitate and increase the call backs worked by employee pilots,
(iv) exhausting the eligibility lists so as to hire ten new full-time pilots.

Even with these measures, delays could not be eliminated totally as the traffic flows at times were significant.

In marine shipping, vessels enter and leave the system unscheduled under sometimes severe weather and environmental conditions. Therefore, an infrastructure must be in place in order to ensure safety, provide a pilot on demand (even to exempt vessels) and meet uneven traffic flows. This may not be possible in the future as financial self-sufficiency does not allow the Authority the luxury of having extra pilots to cover sudden and temporary increases in traffic that may never materialize.

The Authority believes that pilot numbers established in 2001 are sufficient to service the traffic being projected for the 2002-2006 period. In isolated periods of very high traffic, pilot demands cannot be met resulting in delays. The Authority and the Industry must accept, as they have since 1994 some delays since the cost of eliminating all delays can be significant.

OTHER FACTORS

(i) The Authority will continue to review its operating costs and cost reductions will be made where possible as has been done in the past. Pilot numbers will be monitored in relation to demand with additions made only when it is clear that volume changes are likely to be sustained.

(ii) The operating statements for the planning period are based on a navigation season which will not exceed an average of 270 days.

(iii) Inflation forecasts are difficult to prepare given the uncertainty of future events and the speed inflation affects the cost of operation. The Authority will prepare the 5 year plan using 3% as an average cost of living increase. This figure is conservative and the best possible estimate at this time.

FINANCIAL POLICIES

Section 33 (3) of the Pilotage Act requires that the Authority shall, from its tariff of pilotage charges, derive sufficient revenue together with any revenue from other sources to permit it to operate on a self-sustaining financial basis.

The section also requires that the tariff of pilotage charges shall be fair and reasonable.

Whenever these two requirements are not compatible, the Authority has, as a matter of policy, taken the position that the tariffs of pilotage charges must first be fair and reasonable. While financial self-sufficiency is a stated objective of the Authority, it is the Authority's view that it should not always be achieved in each single year (or period) by abandoning the principle of "fair and reasonable".

The Authority's surplus funds will enable it to maintain this balancing act of financial self sufficiency and tariffs being fair and reasonable without having to depend on government funding which was eliminated in a Transport Canada policy decision as well as legislated with the adoption of the Canada Marine Act.

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

BALANCE SHEET

(000'S)

	ACTUAL 1999	FORECAST 2000	BUDGET 2001	FORECAST 2002	FORECAST 2003	FORECAST 2004	FORECAST 2005
ASSETS							
CURRENT ASSETS							
CASH AND INVESTMENTS	$ 8,171	$ 7,287	$ 6,541	$ 6,777	$ 6,789	$ 6,809	$ 6,790
ACCOUNTS RECEIVABLE	3,099	3,188	3,155	3,242	3,342	3,441	3,543
	11,270	10,475	9,696	10,019	10,131	10,250	10,333
LONG TERM INVESTMENTS							
INVESTMENTS - EMPLOYEE TERMINATION BENEFITS	2,705	3,000	3,300	3,600	3,900	4,200	4,500
FIXED ASSETS	637	737	837	937	1,037	1,137	1,237
LESS: ACCUMULATED DEPRECIATION	(462)	(512)	(562)	(612)	(662)	(712)	(762)
	175	225	275	325	375	425	475
TOTAL ASSETS	$ 14,150	$ 13,700	$ 13,271	$ 13,944	$ 14,406	$ 14,875	$ 15,308
LIABILITIES							
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 4,898	$ 4,083	$ 3,304	$ 3,602	$ 3,684	$ 3,768	$ 3,811
ACCRUED TERMINATION BENEFITS	2,678	2,993	3,313	3,638	3,968	4,303	4,643
TOTAL LIABILITIES	7,576	7,076	6,617	7,240	7,652	8,071	8,454
SHAREHOLDER EQUITY							
COMMON STOCK	-	-	-	-	-	-	-
CONTRIBUTED CAPITAL	82	82	82	82	82	82	82
RETAINED EARNINGS	6,492	6,542	6,572	6,622	6,672	6,722	6,772
	6,574	6,624	6,654	6,704	6,754	6,804	6,854
TOTAL LIABILITIES AND EQUITY	$ 14,150	$ 13,700	$ 13,271	$ 13,944	$ 14,406	$ 14,875	$ 15,308

GREAT LAKES PILOTAGE AUTHORITY

OPERATING BUDGET

(000'S)

	ACTUAL 1999	FORECAST 2000	BUDGET 2001	FORECAST 2002	FORECAST 2003	FORECAST 2004	FORECAST 2005
REVENUES							
PILOTAGE	$ 13,980	$ 14,800	$ 14,650	$ 15,061	$ 15,524	$ 15,994	$ 16,481
INVESTMENTS	478	550	550	550	550	550	550
OTHER	77	80	70	70	70	70	70
TOTAL	$ 14,545	$ 15,430	$ 15,270	$ 15,681	$ 16,144	$ 16,614	$ 17,101
EXPENSES							
PILOT WAGES	$ 9,920	$ 10,235	$ 9,845	$10,140	$ 10,445	$ 10,760	$ 11,081
PILOT BENEFITS	1,064	1,400	1,450	1,495	1,540	1,585	1,630
OPERATION SALARIES	582	592	608	625	645	665	685
OPERATION BENEFITS	106	118	122	126	130	135	140
TRAVEL EXPENSES	844	855	850	875	900	925	950
PILOT BOAT	457	475	490	505	520	536	552
LAND TRANSPORTATION	441	240	240	248	254	260	270
TERMINATION BENEFITS							
ACCRUED	278	300	306	310	315	320	325
PAID	132	-	-	-	-	-	-
COMMUNICATION	71	90	90	95	90	95	100
DISPATCH SERVICES	71	75	75	75	75	75	75
UTILITIES AND SUPPLIES	139	115	125	125	130	130	135
TRAINING	14	75	200	150	150	150	150
LIFE INSURANCE (GAIN)	(40)	-	-	-	-	-	-
TOTAL	$ 14,079	$ 14,560	$ 14,390	$ 14,759	$ 15,194	$ 15,636	$ 16,093
OPERATING MARGIN	$ 466	$ 870	$ 880	$ 922	$ 950	$ 978	$ 1,008
ADMINISTRATION EXPENSES							
SALARIES	$ 293	$ 354	$ 375	$ 385	$ 400	$ 410	$ 425
BENEFITS	47	71	75	77	80	83	88
UTILITIES AND RENT	88	90	90	95	95	100	100
RETIRED EMPLOYEES	36	25	25	25	25	25	25
DIRECTOR FEES	50	50	50	50	55	60	65
TRAVEL EXPENSES	93	95	100	105	110	115	120
COMMUNICATION	20	20	20	20	20	20	20
TERMINATION BENEFITS				-	-	-	-
ACCRUED	15	15	15	15	15	15	15
PAID	-	-	-	-	-	-	-
PROFESSIONAL FEES	100	50	50	50	50	50	50
DEPRECIATION	77	50	50	50	50	50	50
TOTAL	$ 819	$ 820	$ 850	$ 872	$ 900	$ 928	$ 958
	-	-	-	-	-	-	-
NET SURPLUS (LOSS)	(353)	$ 50	$ 30	$ 50	$ 50	$ 50	$ 50

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

STATISTICAL DATA AND PERFORMANCE INDICATORS

(000'S)

	ACTUAL		FORECAST				
	1999	2000	2001	2002	2003	2004	2005
OPERATING SUMMARY							
TOTAL REVENUES	$ 14,545	$ 15,430	$ 15,270	$ 15,681	$ 16,144	$ 16,614	$ 17,102
PILOT WAGES AND BENEFITS	10,984	11,835	11,295	11,635	11,985	12,345	12,711
OPERATION WAGES AND BENEFITS	688	710	730	751	776	800	825
PILOT TRAVELLING COSTS	1,378	1,190	1,190	1,228	1,264	1,300	1,340
PILOT BOAT	457	475	490	505	520	536	552
OTHER DIRECT COSTS	572	550	685	640	650	655	666
TOTAL OPERATION COST	14,079	14,560	14,390	14,759	15,194	15,636	16,094
OPERATING MARGIN	466	870	880	922	950	978	1,008
ADMINISTRATIVE EXPENSES	819	820	850	872	900	928	958
NET SURPLUS (LOSS)	(353)	$ 50	$ 30	$ 50	$ 50	$ 50	$ 50
STATISTICS							
TOTAL ASSIGNMENTS	8,108	8,500	8,100	8,100	8,100	8,100	8,100
AVERAGE BRIDGE HOURS PER ASSIGNMENT	8.2	8.2	8.2	8.2	8.2	8.2	8.2
TOTAL BRIDGE HOURS	66,486	69,700	66,420	66,420	66,420	66,420	66,420
AVERAGE NUMBER OF PILOTS	65.5	68	68	70	70	70	70
INCIDENT FREE ASSIGNMENTS	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%
AVERAGE ASSIGNMENTS PER PILOT	124	125	119	116	116	116	116
PERFORMANCE INDICATORS							
ADMINISTRATION AS A PERCENTAGE OF :							
(i) TOTAL COSTS	5.5%	5.3%	5.6%	5.6%	5.6%	5.6%	5.6%
(ii) TOTAL REVENUE	5.6%	5.3%	5.6%	5.6%	5.6%	5.6%	5.6%
REVENUES PER ASSIGNMENT	$ 1,794	$ 1,815	$ 1,885	$ 1,936	$ 1,993	$ 2,051	$ 2,111
OPERATING EXPENSE PER ASSIGNMENT	$ 1,736	$ 1,713	$ 1,777	$ 1,822	$ 1,876	$ 1,930	$ 1,987
GROSS MARGIN PER ASSIGNMENT	$ 57	$ 102	$ 109	$ 114	$ 117	$ 121	$ 124

GREAT LAKES PILOTAGE AUTHORITY

CAPITAL BUDGET

2002

Communications equipment	$ 5,000
Office equipment & furniture	5,000
Computer upgrade for hardware & software & lap tops for electronic charts systems for pilots	90,000
	$ 100,000

Planned capital items of expenditure provide for the outlay of $5,000 to replace obsolete and worn office equipment and furniture at the Authority's offices during the year 2002 and $5,000 for communication equipment. As well, the Authority has planned on spending up to $90,000 to purchase computer equipment for operating electronic navigation charts and upgrading the dispatching & billing software/hardware.